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1995

STATE OF MONTANA
ENVIRONMENTAL QUALITY COUNCIL

FINANCIAL-COMPLIANCE AUDIT FOR THE
TWO FISCAL YEARS ENDED JUNE 30, 1995

PERFORMED UNDER CONTRACT BY:

JAMES J. WOSEPKA
CERTIFIED PUBLIC ACCOUNTANTS

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ENVIRONMENTAL QUALITY COUNCIL

FINANCIAL-COMPLIANCE AUDIT FOR THE
TWO FISCAL YEARS ENDED JUNE 30, 1995

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STATE OF MONTANA

Office of the Legislative Auditor



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SCOTT A. SEACAT

LEGAL COUNSEL:
JOHN W. NORTHEY

November 1995

The Legislative Audit Committee
of the Montana State Legislature:

Enclosed is the report on the audit of the Environmental Quality Council for the two fiscal years ended June 30, 1995.

The audit was conducted by James J. Wosepka, CPA, under a contract between the firm and our office. The comments and recommendations contained in this report represent the views of the firm and not necessarily the Legislative Auditor.

The agency's written response to the report is included in the back of the audit report.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Scott A. Seacat".

Scott A. Seacat
Legislative Auditor

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ELECTED AND APPOINTED OFFICIALS

ENVIRONMENTAL QUALITY COUNCIL

1993-1995

SENATORS

Steve Doherty, Great Falls
Lorentz Grosfield, Big Timber
Dave Rye, Billings
Bill Yellowtail, Wyola
(Resigned 12/93)
Jeff Weldon, Arlee (Appointed 1/94)

REPRESENTATIVES

Jody Bird, Superior
Dick Knox, Winifred
Vickie Cocchiarella, Missoula
Scott Orr, Libby

PUBLIC MEMBERS
Bob Boeh, Whitefish
Jeanne-Marie Souvigney, Livingston
Jerry Noble, Great Falls
Gregory Tollefson, Missoula

Glen Marx, Governor's Representative
Deborah Schmidt, Director

1995-1997

SENATORS

Vivian Brooke, Missoula
William Crismore, Libby
Steve Doherty, Great Falls
Lorentz Grosfield, Big Timber
Ken Mesaros, Cascade
Jeff Weldon, Arlee

REPRESENTATIVES

Vicki Cocchiarella, Missoula
Dick Knox, Winifred
Scott Orr, Libby
Bill Ryan, Great Falls
Debbie Shea, Butte
Bill Tash, Dillon

PUBLIC MEMBERS

Jerry Sorenson, Columbia Falls
Jeanne-Marie Souvigney, Livingston
Jerry Noble, Great Falls
Gregory Tollefson, Missoula

Glen Marx, Governor's Representative
Deborah Schmidt, Director

WATER POLICY COMMITTEE MEMBERS

1993-1995

SENATORS

Don Bianchi, Belgrade
Bob Hackett, Harve
Kenneth Mesaros, Cascade
Bernie Swift, Hamilton

REPRESENTATIVES

Hal Harper, Helena
Russell Fagg, Billings
Vernon Keller, Fishtail
Angela Russell, Lodge Grass

INTRODUCTION

We performed a financial-compliance audit of the Environmental Quality Council for the two fiscal years ended June 30, 1995. The objectives of the audit were to: (1) determine if the financial schedules present fairly the Council's results of operations in accordance with the State's accounting policies for the two fiscal years ended June 30, 1995; (2) determine if the Council complied with applicable laws and regulations; and (3) make recommendations for improvement in the management and internal controls of the Council.

We thank the staff of the Environmental Quality Council for their cooperation and assistance during our audit.

BACKGROUND

The Environmental Quality Council was established by the Extraordinary Session of the 42nd Legislature in 1971 to implement provisions of the Montana Environmental Policy Act (MEPA - Title 75, Chapter 1, MCA). The Council functions as an arm of the Legislature, with the role of anticipating and analyzing the causes of environmental problems and recommending solutions to those problems. The Council also insures that state environmental policy is consistently observed by all state agencies that are concerned with environmental matters. The Legislature assigns interim studies relating to natural resources and economic development to the Council. The Council also assists the Legislature by staffing natural resource committees during the legislative sessions.

INTERNAL CONTROL

We have examined the financial schedules of the Environmental Quality Council for the two fiscal years ended June 30, 1995. We issued our opinion dated September 22, 1995 on these schedules. As part of our examination, we made a study and evaluation of the Council's control system. Our study evaluated the system as required by government auditing standards for financial compliance audits. We classified the controls in the following categories:

1. Expenditures/liabilities;
2. Property, plant, and equipment; and
3. Payroll.

Our study included the control categories listed above. We applied alternative audit tests to property, plant, and equipment as we determined it was more efficient to expand substantive testing for this area. Through our study, we determined the nature, timing, and extent of our auditing procedures. We did not evaluate the control system to the extent necessary to give an opinion on either individual segments or system as a whole.

The management of the Environmental Quality Council is responsible for establishing and maintaining a system of accounting control. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related cost of control procedures. The objectives of a system are to provide management with reasonable assurance that: (1) assets are safeguarded against loss from unauthorized use or disposition; (2) transactions are executed in accordance with management's authorization; and (3) transactions are recorded properly to permit the preparation of financial schedules in accordance with state accounting policies. Inherent limitations in any system of controls may cause errors or irregularities to remain undetected. The current system evaluation should not be used to project to future periods since the procedures may become inadequate or compliance with them may deteriorate.

The limited purpose of our study described in the first paragraph would not necessarily disclose all material weaknesses in the system. Accordingly, we do not express an opinion on the system of controls used by the Environmental Quality Council.

A material weakness is a condition in which the design or operation of one or more of the internal control structure elements does not reduce to a relatively low level the risk that errors and irregularities in amounts that would be material in relation to the financial statements being examined may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control structure and its operations that we consider to be material weaknesses as defined above.

This report is intended solely for the use of management and the Legislature and should not be used for any other purpose. This restriction as to use is not intended to limit the distribution of the document which, upon presentation to the Legislative Audit Committee, is a matter of public record.

PRIOR AUDIT RECOMMENDATIONS

The Environmental Quality Council was last audited for the fiscal years ended June 30, 1992 and 1993, under contract through the Office of the Legislative Auditor. No audit recommendations were made.

CURRENT AUDIT RECOMMENDATIONS

None

STATE COMPLIANCE

We reviewed compliance with state laws that could have a material impact on the financial schedules of the Council. In our opinion, the Council complied with the state laws and regulations tested. Nothing came to our attention that caused us to believe untested compliance issues were not in accordance with applicable laws and regulations.

INDEPENDENT AUDITORS' REPORT

AND SCHEDULES OF AGENCY FINANCIAL ACTIVITY

JAMES J. WOSEPKA

CERTIFIED PUBLIC ACCOUNTANT

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INDEPENDENT AUDITORS' REPORT

The Legislative Audit Committee
Of the Montana State Legislature:

We have audited the financial schedules of the Office of the Environmental Quality Council for each of the two fiscal years ended June 30, 1994 and 1995, as listed in the table of contents. These financial schedules are the responsibility of the Office's management. Our responsibility is to express an opinion on these financial schedules based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial schedules are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial schedules. An audit also includes assessing the accounting principles used and significant estimates used by management, as well as evaluating the overall financial schedule presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1 to the financial schedules, the Office's financial schedules are prepared in accordance with state accounting policy and are not intended to be a presentation in conformity with generally accepted accounting principles.

In our opinion, the financial schedules referred to in paragraph one present fairly, in all material respects, the results of operations and changes in fund balances of the Office of the Environmental Quality Council for each of the two fiscal years ended June 30, 1994 and 1995, in conformity with the basis of accounting described in Note 1.



Baker, Montana
September 22, 1995

ENVIRONMENTAL QUALITY COUNCIL
SCHEDULE OF CHANGES IN FUND BALANCES
FOR THE TWO FISCAL YEARS ENDED JUNE 30, 1994 AND 1995

	<u>General Fund</u>	<u>Special Revenue Funds</u>
FUND BALANCE: July 1, 1993	\$ 0	\$ 8,129
ADDITIONS		
<u>Fiscal Year 1993-94</u>		
Prior Year Expenditure Adjustments	4,275	
Support From State of Montana	268,654	
Nonbudgeted Revenue & Transfers In		280
Cash Transfers In		14,033
REDUCTIONS		
<u>Fiscal Year 1993-94</u>		
Budgeted Expenditures & Transfers Out	272,899	13,814
Direct Entries to Fund Balance	30	75
Prior Year Revenue Adjustments		<u>8,480</u>
FUND BALANCE: June 30, 1994	\$ 0	\$ 73
ADDITIONS		
<u>Fiscal Year 1994-95</u>		
Nonbudgeted Revenue & Transfers In	995	
Prior Year Expenditure Adjustments	3,000	
Direct Entries to Fund Balance	369	
Support From State of Montana	256,764	
Cash Transfers In		8,746
REDUCTIONS		
<u>Fiscal Year 1994-95</u>		
Budgeted Expenditures & Transfers Out	261,128	10,032
Direct Entries to Fund Balance		<u>369</u>
FUND BALANCE: June 30, 1995	\$ 0	\$ (<u>1,582</u>)

This schedule is prepared from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules on pages 7 and 8.

ENVIRONMENTAL QUALITY COUNCIL
SCHEDULE OF BUDGETED PROGRAM EXPENDITURES BY
OBJECT BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 1995

	<u>Environmental Quality Council</u>	<u>Water Policy Committee</u>	<u>Total</u>
PERSONAL SERVICES			
Salaries	\$ 184,071	\$ 1,997	\$ 186,068
Other Compensation	685		685
Employee Benefits	<u>44,123</u>	<u>177</u>	<u>44,300</u>
Total	<u>228,879</u>	<u>2,174</u>	<u>231,053</u>
OPERATING EXPENSES			
Other Services	13,911	2,968	16,879
Supplies & Materials	4,233	252	4,485
Communications	6,154	825	6,979
Travel	5,423	3,813	9,236
Repair & Maintenance	1,064		1,064
Other Expenses	<u>1,464</u>		<u>1,464</u>
Total	<u>32,249</u>	<u>7,858</u>	<u>40,107</u>
TOTAL PROGRAM EXPENDITURES	<u>\$ 261,128</u>	<u>\$ 10,032</u>	<u>\$ 271,160</u>
GENERAL FUND			
Budgeted	\$ 277,512		\$ 277,512
Actual	<u>261,128</u>		<u>261,128</u>
Unspent Budget Authority	<u>\$ 16,384</u>		<u>\$ 16,384</u>
SPECIAL REVENUE FUND			
Budgeted		\$ 13,442	\$ 13,442
Actual		<u>10,032</u>	<u>10,032</u>
Unspent Budget Authority		<u>\$ 3,410</u>	<u>\$ 3,410</u>

This schedule is prepared from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules on pages 8 and 9 .

ENVIRONMENTAL QUALITY COUNCIL
SCHEDULE OF BUDGETED PROGRAM EXPENDITURES BY
OBJECT BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 1994

	<u>Environmental Quality Council</u>	<u>Water Policy Committee</u>	<u>Total</u>
PERSONAL SERVICES			
Salaries	\$ 184,837	\$ 3,880	\$ 188,717
Other Compensation	2,054		2,054
Employee Benefits	<u>43,772</u>	348	<u>44,120</u>
Total	<u>230,663</u>	<u>4,228</u>	<u>234,891</u>
OPERATING EXPENSES			
Other Services	14,115	908	15,023
Supplies & Materials	2,037		2,037
Communications	6,396	1,017	7,413
Travel	<u>14,495</u>	7,401	21,896
Rent	40	170	210
Repair & Maintenance	878		878
Other Expenses	<u>3,624</u>	90	<u>3,714</u>
Total	<u>41,585</u>	<u>9,586</u>	<u>51,171</u>
EQUIPMENT AND INTANGIBLE ASSETS			
Equipment	<u>651</u>		<u>651</u>
Total	<u>651</u>		<u>651</u>
TOTAL PROGRAM EXPENDITURES	<u>\$ 272,899</u>	<u>\$ 13,814</u>	<u>\$ 286,713</u>
GENERAL FUND			
Budgeted	\$ 278,061		\$ 278,061
Actual	<u>272,899</u>		<u>272,899</u>
Unspent Budget Authority	<u>\$ 5,162</u>		<u>\$ 5,162</u>
SPECIAL REVENUE FUND			
Budgeted	\$ 27,256		\$ 27,256
Actual	<u>13,814</u>		<u>13,814</u>
Unspent Budget Authority	<u>\$ 13,442</u>		<u>\$ 13,442</u>

This schedule is prepared from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules on page 7 and 8.

ENVIRONMENTAL QUALITY COUNCIL

NOTES TO THE FINANCIAL SCHEDULES JUNE 30, 1994 AND 1995

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The Environmental Quality Council utilizes the modified accrual basis of accounting which is described in the Montana Operations Manual, such basis differs from generally accepted accounting principles in the following material respects:

under the modified accrual basis of accounting, a valid obligation exists when the related liability is incurred except for the following items which are also considered valid obligations under state accounting policy;

- If the appropriation provided funds to complete a given project, the entire amount of a service contract may be accrued even though the services are rendered in fiscal years subsequent to the fiscal year in which the expenditure is accrued.
- The anticipated cost of equipment is expensed in the fiscal year in which budgeted.
- Goods ordered, but not received as of the fiscal year-end, may be accrued if the purchase order was issued in the fiscal year in which the anticipated expenditure is to be accrued.
- Obligations for employees' vested leave and sick leave are recorded as expenditures when paid.

Basis of Presentation

The financial schedules were prepared from Statewide Budgeting and Accounting System (SBAS) without adjustments. Accounts are organized on the basis of funds according to State law. The following fund types are used by the office:

General - accounts for all financial resources except those required to be accounted for in another fund.

Special Revenue - accounts for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes. Legislative appropriation is required to spend from this fund.

ENVIRONMENTAL QUALITY COUNCIL

NOTES TO THE FINANCIAL SCHEDULES (CONT.)
JUNE 30, 1994 AND 1995

Vacation and Sick Leave

Employees are paid for 100 percent of unused vacation and 25 percent of unused sick leave credits upon termination. Accumulated unpaid liabilities for vacation and sick leave are not reflected in the financial schedules of the Environmental Quality Council. Expenditures for termination pay currently are absorbed in the annual operational costs of the Council. At June 30, 1994 and 1995, the Council had liabilities for compensated absences of \$39,885 and \$31,807, respectively.

2. PENSION PLAN

Employees are covered by Montana Public Employees' Retirement System (PERS). The Council's contributions to the plan are shown below:

Fiscal Year 1994	Fiscal Year 1995
\$ 12,000	\$ 11,443

3. GENERAL FUND BALANCE

The General Fund is a statewide fund. Agencies do not have a separate General Fund since their only authority is to pay obligations from the statewide General Fund as long as they stay within their appropriation limits. Thus, on an agency schedule, the General Fund beginning and ending fund balance will always be zero.

4. SPECIAL REVENUE FUND BALANCE

The special revenue fund is used for water policy expenditures. It is restricted to an appropriation limit. The negative balance in the fund results from a timing difference with the Statewide Accounting and Budgeting System. Expenditures after June 30 of a fiscal year but charged to the prior fiscal year as an expenditure, do not appear as a cash transaction but do appear as an expenditure and a liability. This results in a negative fund balance.

AGENCY RESPONSE



Senate Members

J.D. LYNCH
CHAIRMAN
AL BISHOP
ROBERT "BOB" BROWN
B.F. "CHRIS" CHRISTIAENS
BRUCE D. CRIPPEN
MIKE HALLIGAN

Division Director
HENRY C. TRENK

House Members
LARRY HAL GRINDE
VICE CHAIRMAN
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WILLIAM "RED" MENAHAN
JOHN A. MERCER
THOMAS E. NELSON
RAY PECK

Executive Director
ROBERT B. PERSON

Montana Legislative Council

Legislative Services Division

Room 138 • State Capitol
Helena, Montana 59620-1706
(406) 444-3064
FAX (406) 444-3036

November 13, 1995

James J. Wosepka, CPA
P.O. Box 602
Baker, MT 59313

Dear Mr. Wosepka:

This letter is the Legislative Services Division and Environmental Quality Council's official acceptance of the draft financial compliance audit reports for the two fiscal years ending June 30, 1995.

The reports have been reviewed and there are no comments on their contents.

Thank you for your efforts to ensure the soundness of the Legislative Services Division and the Environmental Quality Council's financial accounting systems. Please let us know if you have any further questions concerning the audit.

Sincerely,

A handwritten signature in black ink, appearing to read "Robert B. Person".

Robert Person
Director,
Legislative Services Division

A handwritten signature in black ink, appearing to read "Todd M. Everts".

Todd Everts
Legislative Env.
Analyst, EQC,
Legislative
Services Division

